derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of our derivatives are included in realized and unrealized gains (losses) on derivative instruments in our statement of operations.

We use the Black-Scholes model to estimate the fair value of our derivative instruments that we use to manage market risk related to certain of our AFS securities. The Black-Scholes model incorporates a number of variables in determining such fair values, including expected volatility of the underlying security and an appropriate discount rate. We obtain volatility rates from independent sources based on the expected volatility of the underlying security over the term of the derivative instrument. The volatility assumption is evaluated annually to determine if it should be adjusted, or more often if there are indications that it should be adjusted. We obtain a discount rate at the inception of the derivative instrument and update such rate each reporting period based on our estimate of the discount rate at which we could currently settle the derivative instrument. At December 31, 2006, the expected volatilities used to value our AFS Derivatives generally ranged from 19% to 26% and the discount rates ranged from 5.1% to 5.4%. Considerable management judgment is required in estimating the Black-Scholes variables. Actual results upon settlement or unwinding of our derivative instruments may differ from these estimates.

Changes in our assumptions regarding (1) the discount rate and (2) the volatility rates of the underlying securities that are used in the Black-Scholes model would have the most significant impact on the valuation of our AFS Derivatives. The table below summarizes changes in these assumptions and the resulting impacts on our estimate of fair value.

Assumption	Estimated aggregate fair value of AFS Derivatives	Dollar value change
	(amounts in millions)	
As recorded at December 31, 2006	$ 983	—
25% increase in discount rate	$ 830	(153)
25% decrease in discount rate	$1,136	153
25% increase in expected volatilities	$ 925	(58)
25% decrease in expected volatilities	$1,060	77

Carrying Value of Long-lived Assets. Our property and equipment, intangible assets and goodwill (collectively, our "long-lived assets") also comprise a significant portion of our total assets at December 31, 2006 and 2005. We account for our long-lived assets pursuant to Statement of Financial Accounting Standards No. 142 and Statement of Financial Accounting Standards No. 144. These accounting standards require that we periodically, or upon the occurrence of certain triggering events, assess the recoverability of our long-lived assets. If the carrying value of our long-lived assets exceeds their estimated fair value, we are required to write the carrying value down to fair value. Any such writedown is included in impairment of long-lived assets in our consolidated statement of operations. A high degree of judgment is required to estimate the fair value of our long-lived assets. We may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. In addition, we may obtain independent third-party appraisals in certain circumstances. We may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. Accordingly, any value ultimately derived from our long-lived assets may differ from our estimate of fair value. As each of our operating segments has long-lived assets, this critical accounting policy affects the financial position and results of operations of each segment.

Retail Related Adjustments and Allowances. QVC records adjustments and allowances for sales returns, inventory obsolescence and uncollectible receivables. Each of these adjustments is estimated based on historical experience. Sales returns are calculated as a percent of sales and are netted against revenue in our statement of operations. For the years ended December 31, 2006 and 2005, sales returns represented 18.5% and 18.0% of QVC's gross product revenue, respectively. The inventory obsolescence is calculated as a percent of QVC's inventory at the end of a reporting period, and is included in cost of goods sold in our statement of operations. At December 31, 2006, QVC's inventory is $915 million and the obsolescence adjustment is $95 million. QVC's allowance for doubtful accounts is calculated as a percent of accounts receivable at the end of a reporting period, and the change in such allowance is recorded as bad debt expense in our statement of operations. At December 31, 2006, QVC's trade accounts receivable are $973 million, net of the allowance for doubtful accounts of $60 million. Each of these adjustments requires management judgment and may not reflect actual results.

Income Taxes. We are required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in our financial statements or tax returns for each taxing jurisdiction in which we operate. This process requires our management to make judgments regarding the timing and probability of the ultimate tax impact of the various agreements and transactions that we enter into. Based on these judgments we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realizability of future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which we operate, our inability to generate sufficient future taxable income or unpredicted results from the final determination of each year's liability by taxing authorities. These changes could have a significant impact on our financial position.

Interactive Group

On May 9, 2006, our stockholders approved our corporate restructuring which, among other things, resulted in the creation of two tracking stocks, one of which is intended to reflect the separate performance of the Interactive Group. The Interactive Group consists of our subsidiaries QVC, Provide and BuySeasons, our interests in IAC/InterActiveCorp and Expedia and $3,108 million principal amount (as of December 31, 2006) of our existing publicly-traded debt.

The following discussion and analysis provides information concerning the results of operations and financial condition of the Interactive Group, which is principally comprised of QVC. Although our restructuring was not completed until May 9, 2006, the following discussion is presented as though the restructuring had been completed on January 1, 2004. The results of operations of Provide and BuySeasons are included in Corporate and Other since their respective date of acquisition in the tables below. Fluctuations in Corporate and Other from 2005 to 2006 are due primarily to the acquisitions of Provide and BuySeasons in 2006. This discussion should be read in conjunction with (1) our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K and (2) the Unaudited Attributed Financial Information for Tracking Stock Groups filed as Exhibit 99.1 to this Annual Report on Form 10-K.

Results of Operations

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Revenue			
QVC	$7,074	6,501	5,687
Corporate and Other	252	—	—
	$7,326	6,501	5,687
Operating Cash Flow (Deficit)			
QVC	$1,656	1,422	1,230
Corporate and Other	24	(5)	(6)
	$1,680	1,417	1,224
Operating Income (Loss)			
QVC	$1,130	921	760
Corporate and Other	—	(5)	(12)
	$1,130	916	748

QVC. QVC is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs and via the Internet. In the United States, QVC's programs are aired through its nationally televised shopping network 24 hours a day ("QVC-US"). Internationally, QVC's program services are based in the United Kingdom ("QVC-UK"), Germany ("QVC-Germany") and Japan ("QVC-Japan"). QVC-UK broadcasts 24 hours a day with 17 hours of live programming, and QVC-Germany and QVC-Japan each broadcast live 24 hours a day.

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Net revenue	$7,074	6,501	5,687
Cost of sales	(4,426)	(4,112)	(3,594)
Gross profit	2,648	2,389	2,093
Operating expenses	(579)	(570)	(497)
SG&A expenses (excluding stock-based compensation)	(413)	(397)	(366)
Operating cash flow	1,656	1,422	1,230
Stock-based compensation	(50)	(52)	(33)
Depreciation and amortization	(476)	(449)	(437)
Operating income	$1,130	921	760

Net revenue is generated in the following geographical areas:

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
QVC-US	$4,983	4,640	4,141
QVC-UK	612	554	487
QVC-Germany	848	781	643
QVC-Japan	631	526	416
	$7,074	6,501	5,687

QVC's net revenue increased 8.8% and 14.3% for the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year, as average sales per customer increased in both years. The 2006 increase in revenue is comprised of a $582 million increase due to an increase in the number of units shipped from 154.4 million to 165.7 million and an $88 million increase due to a 2.0% increase in the average sales price per unit ("ASP"). The revenue increases were partially offset by a $11 million decrease due to unfavorable foreign currency rates and an $86 million decrease due primarily to an increase in estimated product returns. Returns as a percent of gross product revenue increased from 18.0% in 2005 to 18.5% in 2006 due to a continued shift in the mix from home products to apparel and accessories products, which typically have higher return rates.

The 2005 increase in revenue is comprised of a $779 million increase due to an increase in the number of units shipped from 138.0 million to 154.4 million and a $204 million increase due to a 3.7% increase in the ASP. The revenue increases were partially offset by a $145 million decrease due primarily to an increase in product returns and a $24 million decrease due to unfavorable foreign currency exchange rates. Returns as a percent of gross product revenue increased from 17.6% in 2004 to 18.0% in 2005 due to a shift in the sales mix from home products to jewelry, apparel and accessories products.

The number of homes receiving QVC's services are as follows:

	Homes (in millions)		
	December 31,		
	2006	2005	2004
QVC-US	90.7	90.0	88.4
QVC-UK	19.4	17.8	15.6
QVC-Germany	37.9	37.4	35.7
QVC-Japan	18.7	16.7	14.7

The QVC service is already received by substantially all of the cable television and direct broadcast satellite homes in the U.S. and Germany. In addition, the rate of growth in households is expected to diminish in the UK and Japan. As these markets continue to mature, QVC also expects its consolidated rate of growth in revenue to diminish. Future sales growth will primarily depend on continued additions of new customers from homes already receiving the QVC service and continued growth in sales to existing customers. QVC's future sales may also be affected by (i) the willingness of cable and satellite distributors to continue carrying QVC's programming service, (ii) QVC's ability to maintain favorable channel positioning, which may become more difficult as distributors convert analog customers to digital, (iii) changes in television viewing habits because of personal video recorders, video-on-demand and IP television and (iv) general economic conditions.

As noted above, during the years ended December 31, 2006 and 2005, the changes in revenue and expenses were also impacted by changes in the exchange rates for the UK pound sterling, the euro and the Japanese yen. In the event the U.S. dollar strengthens against these foreign currencies in the future, QVC's revenue and operating cash flow will be negatively impacted. The percentage increase in revenue for each of QVC's geographic areas in dollars and in local currency is as follows:

	Percentage increase in net revenue			
	Year ended December 31, 2006		Year ended December 31, 2005	
	U.S. dollars	Local currency	U.S. dollars	Local currency
QVC-US	7.4%	7.4%	12.1%	12.1%
QVC-UK	10.5%	8.4%	13.8%	15.1%
QVC-Germany	8.6%	7.1%	21.5%	21.9%
QVC-Japan	20.0%	26.1%	26.4%	29.4%

QVC's gross profit percentage was 37.4%, 36.7% and 36.8% for the years ended December 31, 2006, 2005 and 2004, respectively. The increase in the gross profit percentage in 2006 was due to higher initial margins due to a shift in the sales mix from home products to higher margin apparel and accessories products and to a lower inventory obsolescence provision. The slight gross profit percentage decrease in 2005 was due primarily to a higher inventory obsolescence provision.

QVC's operating expenses are comprised of commissions and license fees, order processing and customer service expense, credit card processing fees, telecommunications expense and provision for doubtful accounts. Operating expenses increased 1.6% and 14.7% for the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year period. The 2005 increase is primarily due to the increase in sales volume. Operating expenses increased at a lower rate than sales in 2006 due primarily to commissions and bad debt expense. As a percentage of net revenue, operating expenses were 8.2%, 8.8% and 8.7% for 2006, 2005 and 2004, respectively. Commissions, as a percent of net revenue, were fairly consistent in 2004 and 2005 and decreased in 2006, as compared to 2005. The decrease in 2006 is due to a greater percentage of Internet sales for which lower commissions are required to be paid. In addition, commissions decreased as a percentage of revenue in QVC-Japan where certain distributors are paid the greater of (i) a fixed fee per subscriber and (ii) a specified percentage of sales. In 2006, more distributors started to receive payments based on sales volume rather than a fixed fee per subscriber. QVC's bad debt provision decreased as a percent of net revenue in 2006 due to lower write-offs on QVC's private label credit card. As a percent of net revenue, order processing and customer service expenses remained constant in 2006, but decreased in each segment in 2005 as compared to 2004. The 2005 decrease is the result of reduced personnel expense due to increased Internet sales, and operator efficiencies in call handling and staffing. QVC's telecommunications expenses as a percent of revenue remained consistent in 2006, but decreased in 2005 due to new contracts with certain of its service providers. Credit card processing fees remained consistent as a percent of net revenue for each of the years ended December 31, 2006, 2005 and 2004.

QVC's SG&A expenses include personnel, information technology, marketing and advertising expenses. Such expenses increased 4.0% and 8.5% during the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year. Due to the fixed cost and discretionary nature of many of these expenses, SG&A expenses increased at a lower rate than revenue in 2006. In addition, QVC settled certain franchise tax audit issues and reversed $15 million of reserves recorded in prior years. The majority of the 2005 increase reflects a $23 million increase in personnel costs due to the addition of employees to support the increased sales of QVC's foreign operations. In addition, statutory sales and use tax increased $6 million in 2005.

QVC's depreciation and amortization expense increased for the years ended December 31, 2006 and 2005. Such increases are due to fixed asset and software additions.

Capital Group

The other tracking stock created in our restructuring is intended to reflect the separate performance of the Capital Group. The Capital Group is comprised of our subsidiaries and assets not attributed to the Interactive Group, including controlling interests in Starz Entertainment, Starz Media, FUN and TruePosition, as well as minority investments in News Corporation, Time Warner Inc., Sprint Nextel Corporation and other public and private companies and $4,580 million principal amount (as of December 31, 2006) of our existing publicly-traded debt.

We acquired the U.S. and U.K. operations of Starz Media from IDT Corporation ("IDT") in August 2006, and the Canadian and Australian operations in September 2006. The aggregate consideration was valued for accounting purposes at $525 million and was comprised of 14.9 million shares of IDT Class B common stock, 7,500 shares of IDT Telecom, Inc., a subsidiary of IDT, and $290 million in cash. Starz Media's operations include animated feature film production, proprietary live action and animated series production, contracted 2D animation production and DVD distribution.

The following discussion and analysis provides information concerning the attributed results of operations and financial condition of the Capital Group. Although our restructuring was not completed until May 9, 2006, the following discussion is presented as though the restructuring had been completed on January 1, 2004. This discussion should be read in conjunction with (1) our consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K and (2) the Unaudited Attributed Financial Information for Tracking Stock Groups filed as Exhibit 99.1 to this Annual Report on Form 10-K.

Results of Operations

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Revenue			
Starz Entertainment	$1,033	1,004	963
Corporate and Other	254	141	93
	$1,287	1,145	1,056
Operating Cash Flow (Deficit)			
Starz Entertainment	$ 186	171	239
Corporate and Other	(83)	(47)	(72)
	$ 103	124	167
Operating Income (Loss)			
Starz Entertainment	$ 163	105	148
Corporate and Other	(272)	(77)	(108)
	$ (109)	28	40

Revenue. The Capital Group's combined revenue increased $142 million or 12.4% and $89 million or 8.4% for the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year. The 2006 increase is due to Starz Entertainment, as well as our acquisitions of Starz Media and FUN, which contributed $86 million and $42 million of revenue, respectively. The 2005 revenue increase was driven primarily by a $77 million increase for TruePosition and a $41 million increase for Starz Entertainment. TruePosition's revenue increased as it continued to increase delivery and acceptance of its equipment in Cingular Wireless's markets.

In November 2006, TruePosition signed an amendment to its existing services contract with Cingular Wireless that requires TruePosition to develop and deliver additional software features. Because vendor specific objective evidence related to the value of these additional features does not exist, TruePosition is required to defer revenue recognition until all of the features have been delivered. TruePosition estimates that these features will be delivered in the first quarter of 2008. Accordingly, TruePosition will not recognize any revenue under this contract until 2008. TruePosition recognized approximately $105 million of revenue under this contract in 2006 prior to signing the amendment.

Operating cash flow. The Capital Group's Operating Cash Flow decreased $21 million or 16.9% and $43 million or 25.7% in 2006 and 2005, respectively, as compared to the corresponding prior year. The decrease in 2006 is due primarily to an operating cash flow deficit generated by Starz Media, as advertising costs for the animated film *Everyone's Hero* exceeded the revenue it earned. The increase in operating cash flow for Starz Entertainment was partially offset by an operating cash flow deficit of $11 million for FUN. The 2005 decrease is due primarily to a $68 million decrease for Starz Entertainment, partially offset by a $30 million improvement for TruePosition.

Impairment of long-lived assets. We acquired our interest in FUN in March 2006. Subsequent to our acquisition, the market value of FUN's stock has declined significantly due to the performance of certain of FUN's subsidiaries and uncertainty surrounding government legislation of Internet gambling which we believe the market perceives as potentially impacting FUN's skill gaming business. In connection with our annual evaluation of the recoverability of FUN's goodwill, we received a third-party valuation, which indicated that the carrying value of FUN's goodwill exceeded its market value. Accordingly, we recognized a $111 million impairment charge related to goodwill and a $2 million impairment charge related to trademarks.

Operating income (loss). The improvement in operating income for Starz Entertainment in 2006 was more than offset by operating losses for Starz Media and FUN, as well as an increase in corporate stock compensation expense. The 2005 decrease in operating income for Starz Entertainment was partially offset by lower amortization of corporate intangibles and lower corporate stock compensation expense.

Starz Entertainment. Historically, Starz Entertainment has provided premium programming distributed by cable operators, direct-to-home satellite providers and other distributors throughout the United States. In addition, Starz Entertainment has launched Vongo, a subscription Internet service which is comprised of Starz and other movie and entertainment content. Vongo also offers content on a pay-per-view basis. Through 2006, virtually all of Starz Entertainment's revenue continues to be derived from the delivery of movies to subscribers under affiliation agreements with television video programming distributors. Some of Starz Entertainment's affiliation agreements provide for payments to Starz Entertainment based on the number of subscribers that receive Starz Entertainment's services. Starz Entertainment also has fixed-rate affiliation agreements with certain of its customers. Pursuant to these agreements, the customers pay an agreed-upon rate regardless of the number of subscribers. The agreed-upon rate is contractually increased annually or semi-annually as the case may be, and these agreements, expire in 2007 through 2012. During the year ended December 31, 2006, 67.8% of Starz Entertainment's revenue was generated by its four largest customers, Comcast, Echostar Communications, DirecTV and Time Warner. Starz Entertainment's affiliation agreement with DirecTV expired on June 30, 2006. In addition, the affiliation agreement with Time Warner, which originally expired on December 31, 2006, has been extended through May 31, 2007 with provisions for further extensions through June 30, 2007. Starz Entertainment is currently in negotiations with DirecTV and Time Warner regarding new agreements. There can be no assurance that any new agreements with DirecTV or Time Warner will have economic terms comparable to the old agreements.

Starz Entertainment's operating results are as follows:

	Years ended December 31,		
	2006	2005	2004
	(amounts in millions)		
Revenue	$1,033	1,004	963
Operating expenses	(741)	(706)	(603)
SG&A expenses	(106)	(127)	(121)
Operating cash flow	186	171	239
Stock-based compensation	3	(17)	(28)
Depreciation and amortization	(26)	(49)	(63)
Operating income	$ 163	105	148

Starz Entertainment's revenue increased 2.9% and 4.3% for the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year. The 2006 increase is due to a $56 million increase resulting from an increase in the average number of subscription units for Starz Entertainment's services partially offset by a $27 million decrease due to a decrease in the effective rate for Starz Entertainment services. The 2005 increase in revenue is due to an $85 million increase resulting from a rise in the average number of subscription units for Starz Entertainment's services partially offset by a $52 million decrease due to a reduction in the effective rate for Starz Entertainment's services.

Starz Entertainment's Starz movie service and its Encore and Thematic Multiplex channels ("EMP") movie service are the primary drivers of Starz Entertainment's revenue. Starz average subscriptions increased 5.7% and 6.7% in 2006 and 2005, respectively; and EMP average subscriptions increased 6.6% and 8.0% in 2006 and 2005, respectively. The effects on revenue of these increases in subscriptions units are somewhat mitigated by the fixed-rate affiliation agreements that Starz Entertainment has entered into in recent years.

At December 31, 2006, cable, direct broadcast satellite, and other distribution represented 66.6%, 31.6% and 1.8%, respectively, of Starz Entertainment's total subscription units.

Starz Entertainment's operating expenses increased $35 million or 5.0% and $103 million or 17.1% for the years ended December 31, 2006 and 2005, respectively, as compared to the corresponding prior year. Such increases are due primarily to increases in programming costs, which increased from $564 million in 2004 to $668 million in 2005 and to $703 million in 2006. The 2006 programming increase is due primarily to $63 million of additional amortization of deposits previously made under certain of its output arrangements. Such amortization was partially offset by a lower cost per title for movies under certain license agreements and a decrease in programming costs due to a lower percentage of first-run movie exhibitions (which have a relatively higher cost per title) as compared to the number of library product exhibitions. The 2005 increase in programming costs is due to (1) a $55 million increase resulting from a higher percentage of first-run movie exhibitions as compared to the number of library product exhibitions in 2005 and (2) a $49 million increase due to a higher cost per title for movie titles under certain of Starz Entertainment's license agreements.

Starz Entertainment expects that its programming costs in 2007 will be 6%-9% lower than the 2006 costs due to Starz Entertainment receiving fewer first-run titles under certain of its output arrangements in 2007. This estimate is subject to a number of assumptions that could change depending on the number and timing of movie titles actually becoming available to Starz Entertainment and their ultimate box office performance. Accordingly, the actual amount of costs experienced by Starz Entertainment may differ from the amounts noted above.

Starz Entertainment's SG&A expenses decreased $21 million or 16.5% and increased $6 million or 5.0% during 2006 and 2005, respectively, as compared to the corresponding prior year. The 2006 decrease is due primarily to lower sales and marketing expenses of $18 million due to the elimination of certain marketing support commitments under the Comcast affiliation agreement and less marketing with other affiliates, partially offset by marketing expenses related to the commercial launch of Vongo. The 2005 increase in SG&A expenses is due to (1) $11 million of consulting and marketing expenses incurred in connection with Starz Entertainment's 2005 development and 2006 launch of Vongo, and (2) a $12 million credit recorded by Starz Entertainment in 2004 related to the recovery of certain accounts receivable from Adelphia Communications and other customers. These increases were offset by a $16 million decrease in sales and marketing as Starz Entertainment participated in fewer national marketing campaigns and obtained reduced marketing commitments under a new affiliation agreement with Comcast in 2005.

Starz Entertainment has outstanding phantom stock appreciation rights held by its former chief executive officer. Compensation relating to the phantom stock appreciation rights has been recorded based upon the estimated fair value of Starz Entertainment. The amount of expense associated with the phantom stock appreciation rights is generally based on the vesting of such rights and the change in the fair value of Starz Entertainment.

Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to market risk in the normal course of business due to our ongoing investing and financial activities and our subsidiaries in different foreign countries. Market risk refers to the risk of loss arising from adverse changes in stock prices, interest rates and foreign currency exchange rates. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include investments in fixed and floating rate debt instruments and borrowings used to maintain liquidity and to fund business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. We manage our exposure to interest rates by entering into interest rate swap arrangements and by maintaining what we believe is an appropriate mix of fixed and variable rate debt. We believe this best protects us from interest rate risk. We have achieved this mix by (i) issuing fixed rate debt that we believe has a low stated interest rate and significant term to maturity and (ii) issuing variable rate debt with appropriate maturities and interest rates. As of December 31, 2006, the face amount of the Interactive Group's fixed rate debt (considering the effects of interest rate swap agreements) was $5,374 million, which had a weighted average interest rate of 6.5%. The Interactive Group's variable rate debt of $1,026 million had a weighted average interest rate of 6.1% at December 31, 2006. As of December 31, 2006, the face amount of the Capital Group's fixed rate debt was $4,584 million, which had a weighted average interest rate of 2.6%.

Each of the Interactive Group and the Capital Group is exposed to changes in stock prices primarily as a result of our significant holdings in publicly traded securities. We continually monitor changes in stock markets, in general, and changes in the stock prices of our holdings, specifically. We believe that changes in stock prices can be expected to vary as a result of general market conditions, technological changes, specific industry changes and other factors. We use equity collars, written put and call options and other financial instruments to manage market risk associated with certain investment positions. These instruments are recorded at fair value based on option pricing models. Equity collars provide us with a put option that gives us the right to require the counterparty to purchase a specified number of shares of the underlying security at a specified price at a specified date in the future. Equity collars also provide the counterparty with a call option that gives the counterparty the right to purchase the same securities at a specified price at a specified date in the future. The put option and the call option generally have equal fair values at the time of origination resulting in no cash receipts or payments.

Among other factors, changes in the market prices of the securities underlying our AFS Derivatives affect the fair market value of such AFS Derivatives. The following table illustrates the impact that changes in the market price of the securities underlying our equity collars that have been attributed to the Capital Group would have on the fair market value of such derivatives. Such changes in fair market value would be included in realized and unrealized gains (losses) on financial instruments in our consolidated statement of operations.

	Estimated aggregate fair value		
	Equity collars	Other	Total
	(amounts in millions)		
Fair value at December 31, 2006	$ 802	181	983
5% increase in market prices	$ 663	208	871
10% increase in market prices	$ 521	235	756
5% decrease in market prices	$ 937	154	1,091
10% decrease in market prices	$1,069	127	1,196

At December 31, 2006, the fair value of our AFS securities attributed to the Interactive Group was $2,572 million and the fair value of our AFS securities attributed to the Capital Group was $19,024 million. Had the market price of such securities been 10% lower at December 31, 2006, the aggregate value of such securities would have been $257 million and $1,902 million lower, respectively, resulting in a decrease to unrealized holding gains in other comprehensive earnings. The decrease attributable to the Capital Group would be partially offset by an increase in the value of our AFS Derivatives as noted in the table above.

From time to time and in connection with certain of our AFS Derivatives, we borrow shares of the underlying securities from a counterparty and deliver these borrowed shares in settlement of maturing derivative positions. In these transactions, a similar number of shares that we have attributed to the Capital Group have been posted as collateral with the counterparty. These share borrowing arrangements can be terminated at any time at our option by delivering shares to the counterparty. The counterparty can terminate these arrangements at any time. The liability under these share borrowing arrangements is marked to market each reporting period with changes in value recorded in unrealized gains or losses in the Capital Group's attributed statement of operations. The shares posted as collateral under these arrangements continue to be treated as AFS securities and are marked to market each reporting period with changes in value recorded as unrealized holding gains or losses in other comprehensive earnings.

The Interactive Group is exposed to foreign exchange rate fluctuations related primarily to the monetary assets and liabilities and the financial results of QVC's foreign subsidiaries. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated into U.S. dollars at period-end exchange rates, and the statements of operations are generally translated at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in other comprehensive earnings (loss) as a separate component of stockholders' equity. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at the average rate for the period. Accordingly, the Interactive Group may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations.

From time to time we enter into debt swaps and swap arrangements with respect to our or third-party public and private indebtedness. Under these arrangements, we initially post collateral with the counterparty equal to a contractual percentage of the value of the referenced securities. We earn interest income based upon the face amount and stated interest rate of the referenced securities, and we pay interest expense at market rates on the amount funded by the counterparty. In the event the fair value of the underlying debt securities declines more than a pre-determined amount, we are required to post cash collateral for the decline, and we record an unrealized loss on financial instruments. The cash collateral is further adjusted up or down for subsequent changes in fair value of the underlying debt security. At December 31, 2006, the aggregate notional amount of debt securities referenced under our debt swap arrangements, which related to $830 million principal amount of certain of our publicly traded debt, was $592 million. As of such date, we had posted cash collateral equal to $109 million. In the event the fair value of the referenced debt securities were to fall to zero, we would be required to post additional cash collateral of $483 million. The posting of such collateral and the related settlement of the agreements would reduce the principal amount of our outstanding debt by $830 million.

We periodically assess the effectiveness of our derivative financial instruments. With regard to interest rate swaps, we monitor the fair value of interest rate swaps as well as the effective interest rate the interest rate swap yields, in comparison to historical interest rate trends. We believe that any losses incurred with regard to interest rate swaps would be offset by the effects of interest rate movements on the underlying debt facilities. With regard to equity collars, we monitor historical market trends relative to values currently present in the market. We believe that any unrealized losses incurred with regard to equity collars and swaps would be offset by the effects of fair value changes on the underlying assets. These measures allow our management to evaluate the success of our use of derivative instruments and to determine when to enter into or exit from derivative instruments.

Our derivative instruments are executed with counterparties who are well known major financial institutions with high credit ratings. While we believe these derivative instruments effectively manage the risks highlighted above, they are subject to counterparty credit risk. Counterparty credit risk is the risk that the counterparty is unable to perform under the terms of the derivative instrument upon settlement of the derivative instrument. To protect ourselves against credit risk associated with these counterparties we generally:

- execute our derivative instruments with several different counterparties, and
- execute equity derivative instrument agreements which contain a provision that requires the counterparty to post the "in the money" portion of the derivative instrument into a cash collateral account for our benefit, if the respective counterparty's credit rating for its senior unsecured debt were to reach certain levels, generally a rating that is below Standard & Poor's rating of A- and/or Moody's rating of A3.

Due to the importance of these derivative instruments to our risk management strategy, we actively monitor the creditworthiness of each of these counterparties. Based on our analysis, we currently consider nonperformance by any of our counterparties to be unlikely.

Our counterparty credit risk by financial institution is summarized below:

Counterparty	Aggregate fair value of derivative instruments at December 31, 2006
	(amounts in millions)
Counterparty A	$ 504
Counterparty B	494
Other	581
	$1,579

Financial Statements and Supplementary Data.

The consolidated financial statements of Liberty Media Corporation are filed under this Item, beginning on Page F-35.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Controls and Procedures.

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer, principal accounting officer and principal financial officer (the "Executives"), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were effective as of December 31, 2006 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

See page F-33 for *Management's Report on Internal Control Over Financial Reporting.*

See page F-34 for *Report of Independent Registered Public Accounting Firm* for our accountant's attestation regarding our internal control over financial reporting.

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Other Information.

None.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Liberty Media Corporation's management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements and related disclosures in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements and related disclosures in accordance with generally accepted accounting principles; (3) provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (4) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements and related disclosures.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company assessed the design and effectiveness of internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*.

Based upon our assessment using the criteria contained in COSO, management has concluded that, as of December 31, 2006, Liberty Media Corporation's internal control over financial reporting is effectively designed and operating effectively.

Liberty Media Corporation's independent registered public accountants audited the consolidated financial statements and related disclosures in the Annual Report on Form 10-K and have issued an audit report on management's assessment of the Company's internal control over financial reporting. This report appears on page F-34.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing on page F-33, that Liberty Media Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of Liberty Media Corporation is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Liberty Media Corporation and subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Liberty Media Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Liberty Media Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated February 28, 2007 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Denver, Colorado
February 28, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Liberty Media Corporation:

We have audited the accompanying consolidated balance sheets of Liberty Media Corporation and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Media Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in note 3 to the accompanying consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Liberty Media Corporation's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Denver, Colorado
February 28, 2007

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2006 and 2005

	2006	2005*
	(amounts in millions)	
Assets		
Current assets:		
Cash and cash equivalents	$ 3,099	1,896
Trade and other receivables, net	1,276	1,059
Inventory, net	831	719
Program rights	531	599
Financial instruments (note 7)	239	661
Other current assets	241	127
Assets of discontinued operations (note 5)	512	516
Total current assets	6,729	5,577
Investments in available-for-sale securities and other cost investments, including $1,482 million and $1,581 million pledged as collateral for share borrowing arrangements (note 6)	21,622	18,489
Long-term financial instruments (note 7)	1,340	1,123
Investments in affiliates, accounted for using the equity method (note 8)	1,842	1,908
Property and equipment, at cost	1,531	1,196
Accumulated depreciation	(385)	(250)
	1,146	946
Intangible assets not subject to amortization (note 3):		
Goodwill	7,588	6,809
Trademarks	2,471	2,385
	10,059	9,194
Intangible assets subject to amortization, net (note 3)	3,910	3,975
Other assets, at cost, net of accumulated amortization	990	753
Total assets	$47,638	41,965

(continued)

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

December 31, 2006 and 2005

	2006	2005*
	(amounts in millions)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 508	492
Accrued interest	214	153
Other accrued liabilities	1,035	978
Financial instruments (note 7)	1,484	1,939
Current portion of debt (note 9)	114	1,379
Other current liabilities	113	289
Liabilities of discontinued operations (note 5)	101	114
Total current liabilities	3,569	5,344
Long-term debt (note 9)	8,909	6,370
Long-term financial instruments (note 7)	1,706	1,087
Deferred income tax liabilities (note 10)	9,784	8,696
Other liabilities	1,747	1,058
Total liabilities	25,715	22,555
Minority interests in equity of subsidiaries	290	290
Stockholders' equity (note 11):		
Preferred stock, $.01 par value. Authorized 50,000,000 shares; no shares issued	—	—
Liberty Capital Series A common stock, $.01 par value. Authorized 400,000,000 shares; issued and outstanding 134,503,165 shares at December 31, 2006	1	—
Liberty Capital Series B common stock, $.01 par value. Authorized 25,000,000 shares; issued and outstanding 6,014,680 shares at December 31, 2006	—	—
Liberty Interactive Series A common stock, $.01 par value. Authorized 2,000,000,000 shares; issued and outstanding 623,061,760 shares at December 31, 2006	6	—
Liberty Interactive Series B common stock, $.01 par value. Authorized 125,000,000 shares; issued and outstanding 29,971,039 shares at December 31, 2006	—	—
Series A common stock $.01 par value. Issued and outstanding 2,681,745,985 shares at December 31, 2005	—	27
Series B common stock $.01 par value. Issued 131,062,825 shares at December 31, 2005	—	1
Additional paid-in capital	28,112	29,074
Accumulated other comprehensive earnings, net of taxes ("AOCE") (note 15)	5,943	3,412
AOCE of discontinued operations	9	9
Accumulated deficit	(12,438)	(13,278)
	21,633	19,245
Series B common stock held in treasury, at cost (10,000,000 shares at December 31, 2005)	—	(125)
Total stockholders' equity	21,633	19,120
Commitments and contingencies (note 17)		
Total liabilities and stockholders' equity	$47,638	41,965

* See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2006, 2005 and 2004

	2006	2005*	2004*
	(amounts in millions, except per share amounts)		
Revenue:			
Net retail sales	$7,326	6,501	5,687
Communications and programming services	1,287	1,145	1,056
	8,613	7,646	6,743
Operating costs and expenses:			
Cost of sales	4,565	4,112	3,594
Operating	1,526	1,397	1,160
Selling, general and administrative, including stock-based compensation (note 3)	806	648	696
Litigation settlement	—	—	(42)
Depreciation	119	92	91
Amortization	463	453	456
Impairment of long-lived assets (note 3)	113	—	—
	7,592	6,702	5,955
Operating income	1,021	944	788
Other income (expense):			
Interest expense	(680)	(626)	(619)
Dividend and interest income	214	143	130
Share of earnings of affiliates, net	91	13	15
Realized and unrealized gains (losses) on financial instruments, net (note 7)	(279)	257	(1,284)
Gains (losses) on dispositions, net (notes 6, 11 and 15)	607	(361)	1,411
Nontemporary declines in fair value of investments (note 6)	(4)	(449)	(129)
Other, net	18	(39)	(26)
	(33)	(1,062)	(502)
Earnings (loss) from continuing operations before income taxes and minority interest	988	(118)	286
Income tax benefit (expense) (note 10)	(252)	126	(159)
Minority interests in earnings of subsidiaries	(27)	(51)	(22)
Earnings (loss) from continuing operations	709	(43)	105
Earnings (loss) from discontinued operations, net of taxes (note 5)	220	10	(59)
Cumulative effect of accounting change, net of taxes (note 3)	(89)	—	—
Net earnings (loss)	$ 840	(33)	46
Net earnings (loss):			
Liberty Series A and Series B common stock	$ 94	(33)	46
Liberty Capital common stock	260	—	—
Liberty Interactive common stock	486	—	—
	$ 840	(33)	46
Basic and diluted earnings (loss) from continuing operations per common share (note 3):			
Liberty Series A and Series B common stock	$ .07	(.02)	.04
Liberty Capital common stock	$ .24	—	—
Liberty Interactive common stock	$ .73	—	—
Basic and diluted net earnings (loss) per common share (note 3):			
Liberty Series A and Series B common stock	$ .03	(.01)	.02
Liberty Capital common stock	$ 1.86	—	—
Liberty Interactive common stock	$ .73	—	—

* See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

Years ended December 31, 2006, 2005 and 2004

	2006	2005*	2004*
	(amounts in millions)		
Net earnings (loss)	$ 840	(33)	46
Other comprehensive earnings (loss), net of taxes (note 15):			
Foreign currency translation adjustments	111	(5)	20
Recognition of previously unrealized foreign currency translation losses	—	312	—
Unrealized holding gains (losses) arising during the period	2,605	(1,121)	1,490
Recognition of previously unrealized losses (gains) on available-for-sale securities, net	(185)	217	(486)
Reclass unrealized gain on available-for-sale security to equity method investment	—	(197)	—
Other comprehensive earnings (loss) from discontinued operations (note 5)	—	(7)	(54)
Other comprehensive earnings (loss)	2,531	(801)	970
Comprehensive earnings (loss)	$3,371	(834)	1,016
Comprehensive earnings (loss):			
Liberty Series A and Series B common stock	$ 755	(834)	1,016
Liberty Capital common stock	1,787	—	—
Liberty Interactive common stock	829	—	—
	$3,371	(834)	1,016

* See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2006, 2005 and 2004

	2006	2005*	2004*
	(amounts in millions) (see note 4)		
Cash flows from operating activities:			
Net earnings (loss)	$ 840	(33)	46
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Loss (earnings) from discontinued operations	(220)	(10)	59
Cumulative effect of accounting change	89	—	—
Depreciation and amortization	582	545	547
Impairment of long-lived assets	113	—	—
Stock-based compensation	67	52	98
Payments of stock-based compensation	(115)	(103)	(10)
Noncash interest expense	108	101	96
Share of earnings of affiliates, net	(91)	(13)	(15)
Realized and unrealized losses (gains) on financial instruments, net	279	(257)	1,284
Losses (gains) on disposition of assets, net	(607)	361	(1,411)
Nontemporary decline in fair value of investments	4	449	129
Minority interests in earnings of subsidiaries	27	51	22
Deferred income tax benefit	(465)	(389)	(194)
Other noncash charges, net	44	41	20
Changes in operating assets and liabilities, net of the effect of acquisitions and dispositions:			
Current assets	(310)	(175)	(532)
Payables and other current liabilities	660	446	647
Net cash provided by operating activities	1,005	1,066	786
Cash flows from investing activities:			
Cash proceeds from dispositions	1,322	49	479
Premium proceeds from origination of derivatives	59	473	193
Net proceeds from settlement of derivatives	101	461	322
Investments in and loans to cost and equity investees	(235)	(24)	(960)
Cash paid for acquisitions, net of cash acquired	(876)	(1)	(91)
Capital expenditures	(278)	(168)	(128)
Net sales (purchases) of short term investments	287	(85)	263
Repurchases of subsidiary common stock	(331)	(95)	(171)
Other investing activities, net	66	(7)	103
Net cash provided by investing activities	115	603	10
Cash flows from financing activities:			
Borrowings of debt	3,229	861	—
Repayments of debt	(2,191)	(1,801)	(1,006)
Repurchases of Liberty common stock	(954)	—	(547)
Other financing activities, net	(20)	89	28
Net cash provided (used) by financing activities	64	(851)	(1,525)
Effect of foreign currency exchange rates on cash	18	(45)	3
Net cash provided to discontinued operations:			
Cash provided by operating activities	62	75	260
Cash used by investing activities	(67)	(110)	(289)
Cash provided by financing activities	6	11	1,005
Change in available cash held by discontinued operations	—	(177)	(1,839)
Net cash provided by (to) discontinued operations	1	(201)	(863)
Net increase (decrease) in cash and cash equivalents	1,203	572	(1,589)
Cash and cash equivalents at beginning of year	1,896	1,324	2,913
Cash and cash equivalents at end of year	$ 3,099	1,896	1,324

* See note 5.

See accompanying notes to consolidated financial statements.

LIBERTY MEDIA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2006, 2005 and 2004

	Preferred stock	Common stock						Additional paid-in capital	AOCE	AOCE from discontinued operations	Accumulated deficit	Treasury stock	Total stockholders' equity
		Series A	Series B	Liberty Capital Series A	Liberty Capital Series B	Liberty Interactive Series A	Liberty Interactive Series B						
	(amounts in millions)												
Balance at January 1, 2004	$—	27	2	—	—	—	—	38,903	3,233	(32)	(13,291)	—	28,842
Net earnings	—	—	—	—	—	—	—	—	—	—	46	—	46
Other comprehensive earnings (loss)	—	—	—	—	—	—	—	—	1,024	(54)	—	—	970
Issuance of Series A common stock for acquisitions	—	—	—	—	—	—	—	152	—	—	—	—	152
Issuance of Series A common stock in exchange for Series B common stock (note 11)	—	1	(1)	—	—	—	—	125	—	—	—	(125)	—
Acquisition of Series A common stock (note 11)	—	(1)	—	—	—	—	—	(1,016)	—	—	—	—	(1,017)
Amortization of deferred compensation	—	—	—	—	—	—	—	31	—	—	—	—	31
Distribution to stockholders for spin off of Liberty Media International ("LMI") (note 5)	—	—	—	—	—	—	—	(4,512)	(51)	107	—	—	(4,456)
Stock compensation for Liberty options held by LMI employees	—	—	—	—	—	—	—	(4)	—	—	—	—	(4)
Stock compensation for LMI options held by Liberty employees	—	—	—	—	—	—	—	17	—	—	—	—	17
Other	—	—	—	—	—	—	—	5	—	—	—	—	5
Balance at December 31, 2004	—	27	1	—	—	—	—	33,701	4,206	21	(13,245)	(125)	24,586
Net loss	—	—	—	—	—	—	—	—	—	—	(33)	—	(33)
Other comprehensive loss	—	—	—	—	—	—	—	—	(794)	(7)	—	—	(801)
Issuance of Series A common stock for investment in available-for-sale security	—	—	—	—	—	—	—	14	—	—	—	—	14
Amortization of deferred compensation	—	—	—	—	—	—	—	38	—	—	—	—	38
Distribution to stockholders for spin off of Discovery Holding Company ("DHC") (note 5)	—	—	—	—	—	—	—	(4,609)	—	(5)	—	—	(4,614)
Losses in connection with issuances of stock by subsidiaries and affiliates, net of taxes	—	—	—	—	—	—	—	(22)	—	—	—	—	(22)
Issuance of common stock upon exercise of stock options	—	—	—	—	—	—	—	10	—	—	—	—	10
AT&T tax sharing agreement adjustments (note 17)	—	—	—	—	—	—	—	(40)	—	—	—	—	(40)
Adjustment of spin off of LMI	—	—	—	—	—	—	—	(28)	—	—	—	—	(28)
Other	—	—	—	—	—	—	—	10	—	—	—	—	10
Balance at December 31, 2005	—	27	1	—	—	—	—	29,074	3,412	9	(13,278)	(125)	19,120
Net earnings	—	—	—	—	—	—	—	—	—	—	840	—	840
Other comprehensive earnings	—	—	—	—	—	—	—	—	2,531	—	—	—	2,531
Retirement of treasury stock	—	—	—	—	—	—	—	(125)	—	—	—	125	—
Distribution of Liberty Capital and Liberty Interactive common stock to stockholders (notes 1 and 2)	—	(27)	(1)	1	—	7	—	20	—	—	—	—	—
Issuance of common stock upon exercise of stock options	—	—	—	—	—	—	—	4	—	—	—	—	4
Stock compensation	—	—	—	—	—	—	—	62	—	—	—	—	62
Issuance of Liberty Interactive Series A common stock for acquisition	—	—	—	—	—	—	—	36	—	—	—	—	36
Liberty Interactive Series A stock repurchases	—	—	—	—	—	(1)	—	(953)	—	—	—	—	(954)
Other	—	—	—	—	—	—	—	(6)	—	—	—	—	(6)
Balance at December 31, 2006	$—	—	—	1	—	6	—	28,112	5,943	9	(12,438)	—	21,633

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation

On May 9, 2006, Liberty Media Corporation (formerly known as Liberty Media Holding Corporation, "Liberty" or the "Company") completed the previously announced restructuring (the "Restructuring") pursuant to which the Company was organized as a new holding company. In the Restructuring, Liberty became the new publicly traded parent company of Liberty Media LLC (formerly known as Liberty Media Corporation, "Old Liberty"). In the Restructuring, each holder of Old Liberty's common stock received for each share of Old Liberty's Series A common stock held immediately prior to the Restructuring, 0.25 of a share of the Company's Liberty Interactive Series A common stock and 0.05 of a share of the Company's Liberty Capital Series A common stock, and for each share of Old Liberty's Series B common stock held immediately prior to the Restructuring, 0.25 of a share of the Company's Liberty Interactive Series B common stock and 0.05 of a share of the Company's Liberty Capital Series B common stock, in each case, with cash in lieu of any fractional shares. Liberty is the successor reporting company to Old Liberty.

The accompanying consolidated financial statements include the accounts of Liberty and its controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Liberty is a holding company which, through its ownership of interests in subsidiaries and other companies, is primarily engaged in the video and on-line commerce, media, communications and entertainment industries in North America, Europe and Asia.

(2) Tracking Stocks

On May 9, 2006, the stockholders of Old Liberty approved five related proposals which allowed Old Liberty to restructure its company and capitalization. As a result of the Restructuring, all of the Old Liberty outstanding common stock was exchanged for two new tracking stocks, Liberty Interactive common stock and Liberty Capital common stock, issued by Liberty, a newly formed holding company. Each tracking stock issued in the Restructuring is intended to track and reflect the economic performance of one of two newly designated groups, the Interactive Group and the Capital Group, respectively.

Tracking stock is a type of common stock that the issuing company intends to reflect or "track" the economic performance of a particular business or "group," rather than the economic performance of the company as a whole. While the Interactive Group and the Capital Group have separate collections of businesses, assets and liabilities attributed to them, neither group is a separate legal entity and therefore cannot own assets, issue securities or enter into legally binding agreements. Holders of tracking stocks have no direct claim to the group's stock or assets and are not represented by separate boards of directors. Instead, holders of tracking stock are stockholders of the parent corporation, with a single board of directors and subject to all of the risks and liabilities of the parent corporation.

The term "Interactive Group" does not represent a separate legal entity, rather it represents those businesses, assets and liabilities which Liberty has attributed to that group. The assets and businesses Liberty has attributed to the Interactive Group are those engaged in video and on-line commerce, and include its interests in QVC, Inc. ("QVC"), Provide Commerce, Inc. ("Provide"), BuySeasons, Inc. ("BuySeasons"), Expedia, Inc. and IAC/InterActiveCorp. The Interactive Group will also include such other businesses, assets and liabilities that Liberty's board of directors may in the future determine to attribute to the Interactive Group, including such other businesses and assets as Liberty may acquire for the Interactive Group. In addition, Liberty has attributed $3,108 million principal amount (as of December 31, 2006) of its existing publicly-traded debt to the Interactive Group.

The term "Capital Group" also does not represent a separate legal entity, rather it represents all of Liberty's businesses, assets and liabilities other than those which have been attributed to the Interactive Group. The assets and businesses attributed to the Capital Group include Liberty's subsidiaries: Starz Entertainment, LLC (formerly known as Starz Entertainment Group LLC) ("Starz Entertainment"), Starz Media, LLC (formerly known as IDT Entertainment, Inc.) ("Starz Media"), TruePosition, Inc. ("TruePosition") and FUN Technologies, Inc. ("FUN"); its equity affiliates: GSN, LLC and WildBlue Communications, Inc.; and its interests in News Corporation, Time Warner Inc. and Sprint Nextel Corporation. The Capital Group will also include such other businesses, assets and liabilities that Liberty's board of directors may in the future determine to attribute to the Capital Group, including such other businesses and assets as Liberty may acquire for the Capital Group. In addition, Liberty has attributed $4,580 million principal amount (as of December 31, 2006) of its existing publicly traded debt to the Capital Group.

See Exhibit 99.1 to this Annual Report on Form 10-K for unaudited attributed financial information for Liberty's tracking stock groups.

(3) Summary of Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents consist of investments which are readily convertible into cash and have maturities of three months or less at the time of acquisition.

Receivables

Receivables are reflected net of an allowance for doubtful accounts. Such allowance aggregated $72 million and $66 million at December 31, 2006 and 2005, respectively. A summary of activity in the allowance for doubtful accounts is as follows:

	Balance beginning of year	Additions		Deductions-write-offs	Balance end of year
		Charged to expense	Acquisitions		
	(amounts in millions)				
2006	$66	27	14	(35)	72
2005	$63	37	—	(34)	66
2004	$78	19	—	(34)	63

Inventory

Inventory, consisting primarily of products held for sale, is stated at the lower of cost or market. Cost is determined by the average cost method, which approximates the first-in, first-out method.

Program Rights

Program rights are amortized on a film-by-film basis over the anticipated number of exhibitions. Program rights payable are initially recorded at the estimated cost of the programs when the film is available for airing.

Investment in Films and Television Programs

Investment in films and television programs generally includes the cost of proprietary films and television programs that have been released, completed and not released, in production, and in development or pre-production. Capitalized costs include the acquisition of story rights, the development of stories, production labor, postproduction costs and allocable overhead and interest costs. Investment in films and television programs is stated at the lower of unamortized cost or estimated fair value on an individual film basis. Investment in films and television programs is amortized using the individual-film-forecast method, whereby the costs are charged to expense and participation and residual costs are accrued based on the proportion that current revenue from the films bear to an estimate of total revenue anticipated from all markets (ultimate revenue). Ultimate revenue estimates may not exceed ten years following the date of initial release or from the date of delivery of the first episode for episodic television series.

Estimates of ultimate revenue involve uncertainty and it is therefore possible that reductions in the carrying value of investment in films and television programs may be required as a consequence of changes in management's future revenue estimates.

Investment in films and television programs in development or pre-production is periodically reviewed to determine whether they will ultimately be used in the production of a film. Costs of films in development or pre-production are charged to expense if the project is abandoned, or if the film has not been set for production within three years from the time of the first capitalized transaction.

The investment in films and television programs is reviewed for impairment on a title-by-title basis when an event or change in circumstances indicates that a film should be assessed. If the estimated fair value of a film is less than its unamortized cost, then the excess of unamortized costs over the estimated fair value is charged to expense.

Investments

All marketable equity and debt securities held by the Company are classified as available-for-sale ("AFS") and are carried at fair value. Unrealized holding gains and losses on AFS securities are carried net of taxes as a component of accumulated other comprehensive earnings in stockholders' equity. Realized gains and losses are determined on an average cost basis. Other investments in which the Company's ownership interest is less than 20% and are not considered marketable securities are carried at cost.

For those investments in affiliates in which the Company has the ability to exercise significant influence, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize the Company's share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received. Losses are limited to the extent of the Company's investment in, advances to and commitments for the investee. The Company's share of net earnings or loss of affiliates also includes any other-than-temporary declines in fair value recognized during the period.

Changes in the Company's proportionate share of the underlying equity of a subsidiary or equity method investee, which result from the issuance of additional equity securities by such subsidiary or equity investee, are recognized as increases or decreases in stockholders' equity.

The Company continually reviews its investments to determine whether a decline in fair value below the cost basis is other than temporary ("nontemporary"). The primary factors the Company considers in its determination are the length of time that the fair value of the investment is below the Company's carrying value; and the financial condition, operating performance and near term prospects of the investee. In addition, the Company considers the reason for the decline in fair value, be it general market conditions, industry specific or investee specific; analysts' ratings and estimates of 12 month share price targets for the investee; changes in stock price or valuation subsequent to the balance sheet date; and the Company's intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be nontemporary, the cost basis of the security is written down to fair value. In situations where the fair value of an investment is not evident due to a lack of a public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such investment. The Company's assessment of the foregoing factors involves a high degree of judgment and accordingly, actual results may differ materially from the Company's estimates and judgments. Writedowns for cost investments and AFS securities are included in the consolidated statements of operations as nontemporary declines in fair values of investments. Writedowns for equity method investments are included in share of earnings (losses) of affiliates.

Derivative Instruments and Hedging Activities

The Company uses various derivative instruments including equity collars, written put and call options, bond swaps and interest rate swaps to manage fair value and cash flow risk associated with many of its investments and some of its variable rate debt. Liberty's derivative instruments are executed with counterparties who are well known major financial institutions. While Liberty believes these derivative instruments effectively manage the risks highlighted above, they are subject to counterparty credit risk. Counterparty credit risk is the risk that the counterparty is unable to perform under the terms of the derivative instrument upon settlement of the derivative instrument. To protect itself against credit risk associated with these counterparties the Company generally:

- executes its derivative instruments with several different counterparties, and
- executes equity derivative instrument agreements which contain a provision that requires the counterparty to post the "in the money" portion of the derivative instrument into a cash collateral account for the Company's benefit, if the respective counterparty's credit rating for its senior unsecured debt were to reach certain levels, generally a rating that is below Standard & Poor's rating of A− and/or Moody's rating of A3.

Due to the importance of these derivative instruments to its risk management strategy, Liberty actively monitors the creditworthiness of each of its counterparties. Based on its analysis, the Company currently considers nonperformance by any of its counterparties to be unlikely.

Liberty accounts for its derivatives pursuant to Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" ("Statement 133") and related amendments and interpretations. All derivatives, whether designated in hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the